



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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TREASURER ANGELIDES LAUDS PASSAGE OF BILL TO BAN STATE CONTRACTING WITH RUNAWAY U.S. CORPORATIONS

SENATE BILL 640, SENT TO GOVERNOR, WOULD BE THE STRONGEST SUCH LAW IN THE NATION

SACRAMENTO, CA — The California Legislature passed a bill, sponsored by State Treasurer Phil Angelides that would prohibit the State and any of its agencies from contracting with publicly held runaway U.S. corporations – companies that have moved offshore, in name only, to avoid taxes and weaken shareholder rights. The legislation, Senate Bill 640, now goes to Gov. Gray Davis.

“This legislation sends a strong message that corporate irresponsibility will not be tolerated,” Angelides said. “These runaway American corporations don’t call the Bermuda police when their offices need protection; they don’t call the Bermuda fire department when their buildings catch fire; and they don’t call the Bermuda army to defend them from national security threats. These companies should come back home to America, pay their fair share of taxes and abide by our shareholder protection laws.”

SB 640, authored by state Sen. John Burton, D-San Francisco, would prohibit the State of California from contracting with any publicly held U.S. corporations that have “expatriated,” or moved their place of incorporation, to tax havens where they have no substantial business activities. Paper relocations to offshore tax havens such as Bermuda, Barbados and the Cayman Islands enable corporations to avoid paying U.S. and California taxes while they are still benefiting from operating as a U.S. company.

“I don’t think it makes sense for California to do business with companies that go offshore on paper to avoid our tax, labor and shareholder rights laws,” Burton said. “If they want to do business with us and get the benefits of operating in this state, then they should abide by our rules and pay U.S. taxes.”

Offshore incorporation makes it more difficult for shareholders to hold officers and directors legally accountable for malfeasance, and to collect judgments when they have been harmed. In addition, it can make it more difficult for shareholders to prevent a company from selling off a substantial portion of its assets without their approval.

“The best way to curb the practice of corporate expatriation would be to enact strong federal laws to eliminate the offshore tax loopholes or prohibit expatriate corporations from receiving federal contracts,” Angelides said. “However, Republican Congressional leaders have blocked needed reforms and states are being forced to take steps to stop this troubling practice of expatriation.”

In the absence of federal action against these companies, North Carolina has passed a new law prohibiting the state’s agencies from signing new contracts with companies that expatriate after passage of that law. Legislation has been introduced in Massachusetts, Minnesota, Montana, Pennsylvania and Texas either to bar state contracts with expatriate companies or to close tax loopholes that these companies utilize.

According to the State Franchise Tax Board, California will lose an estimated \$132 million over the next 10 years as a result of corporate runaways or “expatriations” that already have occurred. (As of June 30, 18 public companies have expatriated to offshore tax havens to avoid paying taxes. Included in this list are corporations like Tyco International Ltd. and Ingersoll-Rand Co. Ltd.)

If the number of corporations that expatriate continues to grow at the same rate of the past 10 years, the Franchise Tax Board estimates that California will lose an estimated \$180 million in tax revenues over the next 10 years.

The bill does allow a limited exclusion from the ban for current expatriate companies if they agree to restore key shareholder rights and utilize the worldwide combined reporting method for calculating income taxes owed to California. This will enable California to collect its fair share of taxes.

The Treasurer has been a national leader in fighting to end the practice of corporate expatriation. In July 2002, for example, Angelides banned the State’s \$50 billion Pooled Money Investment Account (PMIA) from investing in publicly held U.S. corporations that reincorporate in offshore tax havens. He also prohibited the State Treasurer’s Office from contracting with or engaging in any business dealings with expatriate U.S. companies. And as a board member of the California Public Employees’ Retirement System and California State Teachers’ Retirement System, the Treasurer urged both public pension funds – the nation’s first and third largest – to back shareholder resolutions calling on expatriate companies such as Tyco International Ltd., Ingersoll-Rand and McDermott to reincorporate back in the United States. These efforts are part of the Treasurer’s more broadly based *Power of the Purse* campaign, which urges institutional investors to vigorously use their market strength to advance an agenda of corporate reform.

SB 640 passed out of the Senate yesterday on a 25-13 vote. It passed out of the Assembly on Monday on a 48-29 vote. No Republican in either house voted in favor of the bill.

A related bill, SB 1067 authored by state Sen. Jackie Speier, D-Hillsborough, that would close the tax loophole allowing these corporations to avoid paying their fair share of taxes, is being held up in the Senate because it needs one more vote to reach the two-thirds approval required to pass. The only Republican in favor of SB 1067 was Sen. Bruce McPherson, R-Santa Cruz.

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